STATEMENT OF THE

NATIONAL CHICKEN COUNCIL

and

NATIONAL TURKEY FEDERATION

BEFORE THE HOUSE AGRICULTURE COMMITTEE

Hearing on Agriculture's Role in a Renewable Fuels Standard

PRESENTED BY

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Good morning, Chairman Goodlatte, and thank you and the committee for the opportunity to testify here today. The National Turkey Federation and the National Chicken Council have concerns about the Renewable Fuels Standard (RFS) as contained in H.R. 3081 and in both versions of the Energy Bill. Mandating the use of a certain quantity of fuel ethanol directly impacts the demand for corn, which in turn directly impacts the economic viability of animal agriculture to feed corn. This hearing can serve as an important opportunity to more fully address the issues confronting livestock and poultry production with respect to the RFS.

It is our hope that our comments and efforts can contribute to an energy policy that provides for a renewable fuels program that does not jeopardize the more than 40,000 family farms involved in producing chickens and turkeys for American consumers.

My name is Jim Mason, and I am general manager of the Virginia Poultry Growers Cooperative (VPGC), which is headquartered in Hinton, Virginia. I previously worked for more than 20 years as a senior executive with Wampler-Longacre, Inc., including serving as president of Wampler Foods from 1993 to 1997. I am a former Executive Committee and officer of the National Turkey Federation and a past president of the Virginia Poultry Federation. During my years at Wampler Foods, I also was an active member of the National Chicken Council.

The VPGC was created last year after Pilgrim's Pride decided to consolidate all its turkey processing operations into the company's Pennsylvania facilities. Through your many efforts, Mr. Chairman, the hard work of local leaders in the Shenandoah Valley and the cooperation of Pilgrim's Pride during the transition process, we were able to form the VPGC and to continue providing a processing outlet for 143 family farmers, who otherwise might have been forced to give up turkey production on their farms.

Today, the VPGC is processing the turkeys raised in Virginia and West Virginia into 150 million pounds of high-quality, nutritious turkey products, and we are employing 530 people at our plant in Hinton. We are extremely proud of what we have accomplished in a short period of time, we are grateful for the strong support of people like yourself and we are extremely optimistic about our future.

But, make no mistake about it: we are a start-up operation. Like all new companies, the first few months and years are going to be critical to our long-term success. We remain extremely vulnerable to outside forces that could undermine our profitability and long-term success. That's why we have grave concerns about H.R. 3081, about the Energy Bill now pending in conference committee and about the general concept of a Renewable Fuels Standard (RFS).

Feed can account for as much as 70 percent of the cost of raising poultry. On some individual farms, the percentages can be even higher. Corn by far is the number-one ingredient in poultry feed rations. The availability and cost of feed has a direct impact on the profitability of poultry producers and on the profitability of those who process their products.

For example, in the mid-1990s, grain supplies became very tight, with the corn stocks-to-use ratio dropping well below 10 percent. In such a tight market, competition for the limited corn supplies was fierce, and feed costs soared to record levels, more than 30 cents per pound for turkeys in 1996. As a result, the turkey industry was losing almost seven cents on every pound it produced. A variety of market forces increased the grain supply during the late 1990s, and feed costs dropped at one point to below 20 cents per pound. During that period, the industry made an average of more than 10 cents on each pound of turkey sold.

The chicken industry can tell a similar story. Only twice in recent memory has chicken production decreased from one year to the next. In both those instances, it was the result of the federal government imposing policies that disrupted normal market forces and conditions.

Clearly, access to grain that is available in an open and competitive market is vital to the success of livestock and poultry operations. That is why our organizations, and the family farmers and companies we represent, appreciate the opportunity to talk to you about the energy policy provisions that could, during a shortfall in the normal corn harvest, result in severe disruptions to poultry producers and processors.

H.R. 3081 and the Senate version of the Energy Bill both call for refiners to blend eight billion gallons of "renewable fuel" into gasoline by 2012. The House version of the Energy Bill provides a slightly more modest mandate of five billion gallons by 2012.

Proponents of the RFS claim that the standard will help further America's energy independence while having a minimal effect on the market for livestock and poultry feed. I'm going to focus strictly on the second claim.

Those who support the RFS say livestock and poultry producers do not need to worry about the feed markets because the trend line on corn yields is increasing, thus ensuring corn harvests will routinely look like last year's 11.8 billion-bushel crop. They say that gasoline refiners will increasingly use products other than corn-based ethanol to meet the Renewable Fuels Standard. And, they point out that refining corn into ethanol produces dried distillers' grains (DDGs) that can be used in feed rations.

We sincerely hope the ethanol proponents are right on the first two points. The trend line for corn yields is increasing, but we must remember that a trend line does not predict the size of a harvest in any individual year. It was just three years ago that we had a nine billion-bushel corn crop, and – as the growing concerns about dry weather this year in the Midwest indicate – there always is a risk that individual corn harvests will be short. We also agree that there will be a greater diversity of renewable fuels by 2012, but the corn-based ethanol industry will have a capacity of 4.4 billion gallons by the end of the year. They have a tremendous head start on their competitors. We appreciate the Committee's efforts in H.R. 3081 to encourage development of a wider variety of renewable fuels, but it will be several years, at best, before we enjoy the benefits of those provisions.

Finally, dried distiller's grains cannot replace corn on a one-to-one basis. The ethanol refining process removes the starch, leaving only protein in the DDGs. Poultry generally can utilize no more than 10 percent DDGs in feed rations, and when we use DDGs, we have to add supplemental lysine to the ration. Put simply, there is little room for additional DDG consumption.

That's why our message today is relatively simple: when the final energy legislation is written, Congress should approve a reasonable RFS and, at the same time, should include provisions that explicitly protect animal agriculture producers in the event of a corn crop shortage or outright failure.

Right now, about 11 percent of the corn crop is being diverted to ethanol. At eight billion gallons, under the wrong circumstances, the RFS could divert almost 35 percent of the corn crop to ethanol. Under the best circumstances, an eight billion-gallon RFS would divert more than 20 percent of the corn crop to ethanol. By contrast, a realistically bad year at five billion gallons would divert about 20 percent of the corn crop. Basically, a good year at eight billion gallons is still marginally worse for livestock and poultry than a bad year at five billion gallons. <u>That is why the National Chicken Council and the National Turkey Federation strongly urge Congress to adopt the five billion-gallon RFS contained in the House version of the Energy Bill.</u>

Congress also should recognize that an RFS at any level could put livestock and poultry producers at a competitive disadvantage in a tight corn market. Because gasoline refiners will be mandated by the RFS to purchase a specific amount of renewable fuel, an increase in corn prices will not affect ethanol producers in the same way as livestock and poultry producers. If you can pass along the majority – perhaps all – of your cost increases to the consumer, you can afford to bid more for corn.

Historically, when feed costs increase, livestock and poultry producers begin liquidating their flocks and herds to cut costs and increase the chances of financial survival. There is no federal mandate to purchase meat and poultry, so these overloads on the market drive down retail prices, severely limiting the ability of producers to pass their cost increases along to consumers. Only the livestock and poultry producers with the deepest pockets can survive in such an environment. That's why a "pressure-relief valve" is a reasonable safety precaution.

Both NCC and NTF strongly recommend Congress include a provision in the RFS that would protect livestock and poultry producers from a crop disaster. You will find a copy of our proposal attached to our written statement. This amendment would require a review by EPA, USDA and the Energy Department if the corn stocks-to-use ratio falls below 15 percent. It would require an adjustment of the RFS if the stocks-to-use ratio drops below 10 percent, which as I noted at the outset, is the level at which livestock and poultry producers almost always begin to experience a financial crisis.

Poultry producers understand that feed costs will go up when corn supplies are short, and we accept that market risk. We would ask Congress to recognize that the RFS in certain situations could have a market-distorting effect and that Congress provide us with a way to alleviate at least some portion of the potential market disruption.

We think this is a fair proposal and one that – if history is any indicator – would be utilized only rarely. The risk to ethanol proponents in this proposal is minimal, and we would hope Congress would consider it a reasonable trade-off, given the significant market advantages the ethanol industry will be gaining in the RFS. If ethanol proponents are asking us and Congress to bet on the projection of great future corn crops, it doesn't seem inappropriate to ask those proponents to share that gamble to a very small way.

One final note on our proposed amendment: the waiver language in H.R. 3081 and the waiver language in both versions of the Energy Bill will not work. The waiver process is too lengthy; by the time any waiver was granted, the damage would be done. The waiver proposals in the bills also make the waiver decision entirely discretionary on the part of the EPA administrator. We want to make the process less subjective and less political and to ensure that any RFS adjustment provides a real benefit to livestock and poultry producers.

We thank you for the opportunity to testify, and we would be pleased to answer any questions you may have.